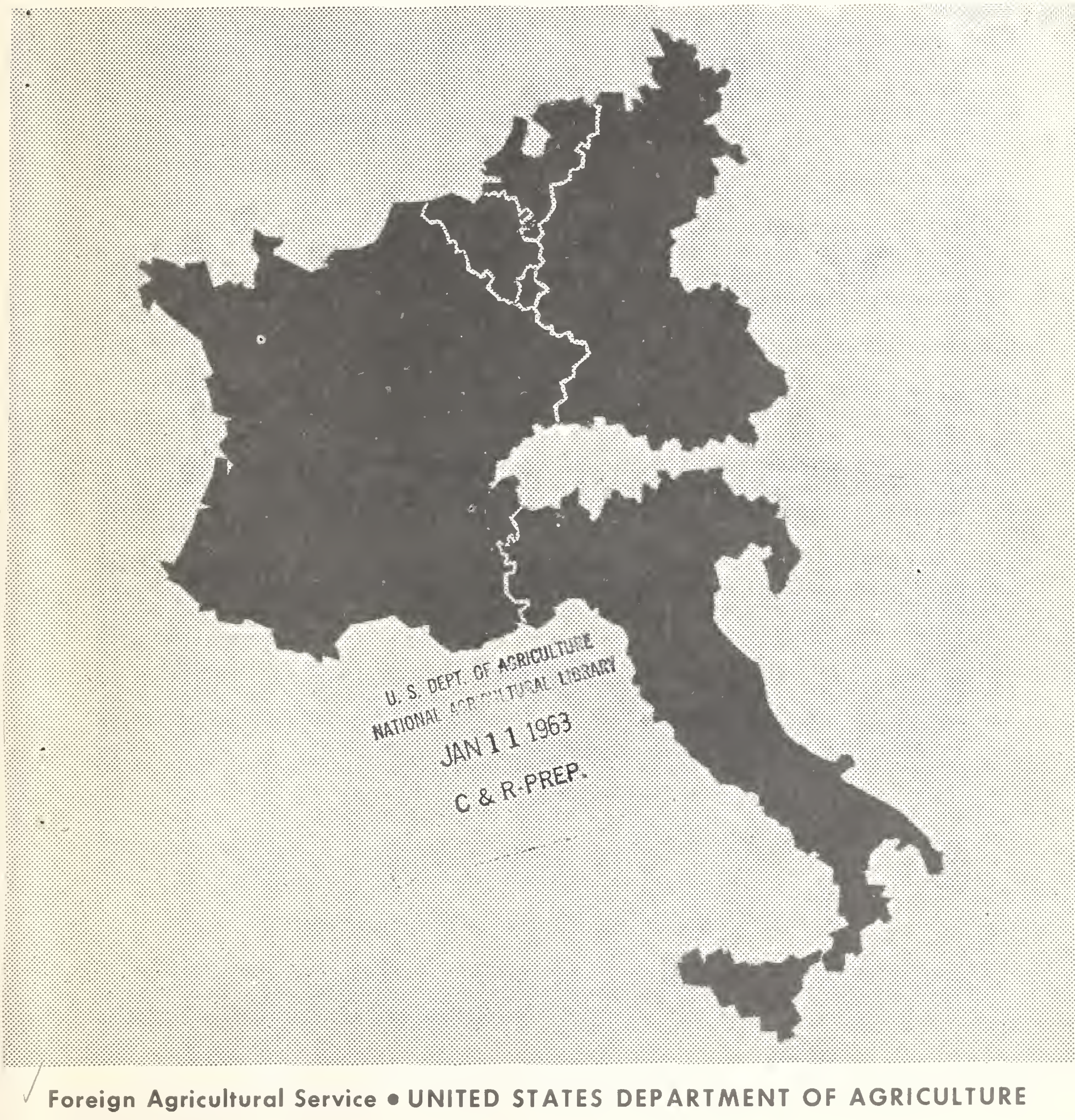
THE EUROPEAN COMMON MARKET AND U. S. AGRICULTURE



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The European Common Market—its official name is the European Economic Community—consists of six countries—France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. These countries have founded an economic union and are taking down the trade walls that have separated them for centuries. Eventually commerce within the combined area will be carried on freely—much as it is among the States of the United States. There will be no tariffs among individual countries making up this customs union, and no restrictions on movement of goods, capital, services, and workers. Like the United States, the Common Market as a unit will have a single policy on imports from "outside" countries.

The treaty establishing the Common Market, signed by the six countries in Rome, Italy, in March 1957, also provides for expansion of the Community. The United Kingdom, Ireland, Denmark, and Norway have applied for full membership, and EEC negotiations looking to accession of the United Kingdom are well advanced. An agreement of association between Greece and the Common Market has been concluded. Turkey, Austria, Sweden, Switzerland, and Spain are also seeking some form of association with the Common Market.

The Rome Treaty established a "transition period," during which the merger of the several economies is to take place. Transition is scheduled to end not later than the end of December 1969, but could be extended to the end of December 1972. The member governments are moving toward the uniform common market in stages of 4 years each, during which internal barriers to trade are progressively abolished. The first phase was completed on January 1, 1962.

Important steps toward merger of the industrial economy were taken during that first phase. There were substantial cuts in internal tariffs, and complete abolition of quota restrictions on industrial goods traded among member countries.

Agriculture was excluded from the first stage because of lack of agreement on steps to harmonize national agricultural policies. After protracted negotiations, agreement was reached in January 1962 on the first steps to be taken toward a common agricultural policy. During the second phase of the transition period which began on January 1, 1962, progress will be made toward creating a common market for agricultural products. The first Community-wide regulations for agricultural commodities went into effect July 30, 1962, for wheat, feed grains, flour, poultry and eggs, fruits and vegetables, wine, live hogs, and hog carcasses.

Geographically Small, Economically Large

Geographically, the European Common Market is relatively small. France and West Germany together are smaller than Texas. Belgium is only about a third as big as Pennsylvania.

U. S. agricultural exports, total and to the Common Market, fiscal year 1961

Commodity	Total U. S. agricultural exports	For dollars	To Common Market	Common Market as % of total exports	Common Market as % of dollar exports
	Mil. dol.	*Mil. dol.*	*Mil. dol.*	*Percent*	*Percent*
Poultry products..	85	84	36	42	43
Feed grains........	531	379	197	37	52
Soybeans...........	344	326	118	34	36
Cotton...............	937	708	266	28	38
Tobacco............	385	312	87	23	28
Cottonseed and soybean oil......	148	74	30	20	41
Wheat and flour...	1,151	326	120	10	37
Other.................	1,365	1,184	247	18	21
Total..........	4,946	3,393	1,101	22	32

U. S. agricultural exports to the Common Market and the United Kingdom, fiscal year 1961

Commodity	Total U. S. agricultural exports	For dollars	To Common Market & U.K.	Common Market & U.K. as % of total exports	Common Market & U.K. as % of dollar exports
	Mil. dol.	*Mil. dol.*	*Mil. dol.*	*Percent*	*Percent*
Poultry products..	85	84	37	44	44
Feed grains........	531	379	303	57	80
Soybeans...........	344	326	130	38	40
Cotton...............	937	708	330	35	47
Tobacco............	385	312	224	58	72
Cottonseed and soybean oil......	148	74	33	23	46
Wheat and flour...	1,151	326	151	13	46
Other.................	1,365	1,184	360	26	30
Total..........	4,946	3,393	1,568	32	46

However, in 1960, the 170 million population of the Common Market was close to that of the United States. Another 70 million was added by overseas countries and territories which are associated with the EEC. Addition of countries seeking membership or association would bring the population to over 300 million.

The Common Market is one of the most intensively industrialized areas of the world. It turns out steel, automobiles, machinery, chemicals, textiles,

optical equipment, and thousands of other manufactured items. It has a excellent transportation system. Technological skills of workers are high.

The "gross national product" of the Common Market in 1960 was about a third that of the United States:

Calendar year	European Common Market 1/	United States
	Bil. dol.	*Bil. dol.*
1956	145	420
1957	155	444
1958	161	446
1959	165	484
1960	181	505

1/ In terms of current prices and current exchange rates.

Historical Road to the Common Market

Economic unity among nations is not a new idea. In 1833, Prussia and other independent German states agreed to impose no tariffs against each other, to adopt uniform tariffs against the rest of the world, and to divide customs revenue among members. Over the years, similar arrangements were adopted by some other nations. Twelve minor customs unions, including one between Belgium and Luxembourg and another between Switzerland and Liechtenstein, either survived World War II or were re-established.

U. S. Marshall Plan aid laid the groundwork, beginning in 1947, for European recovery and cooperation. The Organization for European Economic Cooperation, set up in 1948, was followed the same year by creation of the Benelux customs union of Belgium, the Netherlands, and Luxembourg. Later came the European Coal and Steel Community, the European Atomic Energy Community, and the European Economic Community—the Common Market.

The United States has consistently encouraged economic and political cooperation in Western Europe within the framework of a liberal trade policy for all goods, agricultural as well as industrial. The United States sees in the rise of a unified, prosperous Western Europe a vast increase in the strength of the Free World at a time when strength is most urgently needed.

Common Market's Common Agricultural Policy

The Rome Treaty calls for development of a Common Agricultural Policy within the Common Market. The first basic Common Agricultural Policy (CAP) decisions on wheat, flour feed grains, poultry and eggs, pork, fruits and vegetables, and wine were taken in January 1962. At that time the member governments agreed that the first steps toward establishing a common market for agricultural products would be taken in 1962 and set the end of 1969 as a target date for the completion of the common market for agricultural products. This means that by the end of 1969 all tariffs, quotas, and other regulations restricting

intra-Community trade in agricultural products will be removed, and by that date national agricultural policies will be harmonized. As a part of this development, agricultural price supports, where they exist, will be uniform for the entire Community, taking into account geographical location in relation to markets. By the end of 1969, also, the present individual tariffs toward nonmember countries will be replaced by one uniform system of tariffs for the Community.

The main features of proposals thus far developed for a common agricultural policy include control of farm products through common marketing authorities; establishment of common prices and abolition of trade barriers within the area during a transition period; control of imports through variable levies, fees, minimum prices, and, in some instances, quantitative restrictions; use of funds to finance market operations and subsidize exports; establishment of quality standards; and harmonization of veterinary, plant health, and similar regulations.

The first steps in moving toward a Common Agricultural Policy for agricultural products took effect on July 30, 1962. At that time, EEC regulations were issued for wheat, flour, feed grains, poultry and eggs, live hogs, whole hog carcasses, fruits and vegetables, and wine. Regulations for other products including pork, beef, rice, and dairy products will likely be issued during the coming year. During the transition period ending December 1969, individual member countries are responsible for administering the regulations. Provision is made, however, for moving progressively toward the uniform Community system which goes into effect not later than the end of 1969.

EEC Regulations

Variable Import Levies

For some commodities, EEC regulations provide for a system of variable levies on imports in lieu of a fixed tariff. Briefly, the variable levy system is designed to offset the difference between world prices of commodities and desired price objectives in the Common Market. This system could promote a policy of protection and self-sufficiency in the Common Market countries. It could provide a strong price incentive for an expansion in production within the EEC countries. With high internal prices and protection against imports afforded by the variable levies, EEC farmers would have the incentive to expand uneconomic production. EEC internal price levels are therefore the key to the effects of the variable levies on trade with third countries.

Grains.—Wheat and feed grains account for most of the value of U. S. exports that will be affected by the variable import levies. U. S. exports of these two important commodities equaled 90 percent of the total value of the five commodities on which variable import levies have been imposed.

In application, two variable levies are to be used on grains between now and the end of 1969. One is to be imposed by each Common Market country on imports from other members. The other is to be imposed by each Common Market country on imports from non-members. Use of the levy on imports member countries is to equalize import prices with domestic prices in each EEC country.

By the end of 1969 the use of the variable import levy by each Common Market country on grain imports from other members is scheduled to be eliminated after having been gradually reduced over the previous 7-1/2 years. There will then remain a variable levy that will be used by EEC countries on imports from non-member countries.

The variable levy on grain imports is determined by taking the difference between a "threshold" price and an import price. The threshold price is derived by a downward adjustment of a "target" price, which is the desired price in each EEC country; by the end of 1969 the target price will be the desired price for all EEC countries. This downward adjustment includes a deduction for freight and other costs necessary to transport the grain from the port of entry to the target area.

The variable levy that will be used on imports from non-member countries will be considerably higher than on imports from EEC countries, mainly because the import price to be deducted from the threshold price will be lower for non-member than member countries.

The import price for non-member countries to be deducted from the threshold price will be the lowest world market c.i.f. price adjusted for quality, at the principal port of entry. In addition, there will be added a small fixed charge to give a further advantage to Common Market grain.

How the EEC Common Agricultural Policy will affect continued opportunities for access of agricultural products to the EEC market depends upon how it is applied. Variable levies could be applied in an exceedingly restrictive manner to the detriment of imports. They could also be applied in a liberal manner so as to permit reasonable access for imports. The EEC has given assurances that the latter is its intention.

A test of whether this intention is achieved is the level of internal support prices which the EEC finally determines. Should these be set too high, domestic production will be excessively stimulated and imports will be subject to more restrictive levies.

Gate Prices

Minimum import or "gate" prices will be established by the EEC for several commodities. As the EEC proposes to use this device, it goes beyond the usual and accepted concept of protection against "dumping," and the consequences are much broader. For example, the "gate" prices already announced for poultry are higher than U. S. costs of production and, where applied, will subject American exports to a fee in addition to the variable levy.

Licensing

Several regulations require import licenses. This could be trade restrictive and cause unnecessary delays.

Escape Clause Measures

Many regulations provide for this. For example, the poultry regulation permits EEC member countries to close their borders to imports on 3 days'

notice if imports threaten to cause grave market disturbances. This could work acute hardship on American exporters, since obviously considerably more than 3 days' lead time is required between contracting and actual delivery of a commodity.

Trade Benefits

It would be a mistake to assume that all provisions of CAP regulations pose a threat to trade. Many trade restrictive features of the past will disappear as EEC-wide regulations go into effect. Quotas, mixing regulations for wheat, state trading, and other nontariff trade restrictive devices are all scheduled to disappear. Many already have disappeared under the regulations which went into effect July 30, 1962.

For example, Italian restrictions on U.S. feed grains with the exception of grain sorghums have been lifted.

U.S. poultry exporters also have the opportunity to sell dressed poultry to Italy for the first time. When all nontariff restrictions to trade are finally removed, the trade liberalization benefits should be considerable, unless these positive benefits are diminished or eliminated by other devices mentioned above.

U.S. Trade Negotiations With the EEC

U. S. trade with most countries is regulated by tariff agreements negotiated under the Reciprocal Trade Agreements Act of 1934, as amended. These negotiations in recent years have taken place under the auspices of the General Agreement on Tariffs and Trade, commonly known as GATT.

All the members of the Common Market are members of GATT. After the Common Market came into being, the United States entered into negotiations with the Common Market as a unit for the purpose of arriving at tariff rates which would replace the previous individual member tariff bindings which had been negotiated under GATT and to negotiate reductions in these rates.

The tariff negotiations concluded at Geneva in March 1962 were the most extensive and complex ever carried out under the Trade Agreements Act. The time required to complete these negotiations in large part reflects their scope and importance to U.S. trade interests—indeed to all Free World trade.

Negotiations with the European Economic Community were of special importance to American farmers. Of the $4.9 billion worth of U.S. farm products exported in fiscal year 1961, $1.1 billion worth—22 percent—went to the European Economic Community. These exports accounted for about a third of the $3.4 billion worth sold for dollars that year.

A unique feature of these negotiations was that, for the first time, the United States and other countries were dealing with a single spokesman for these six Western European countries that represent a commercial market of major importance in world trade. Of significance also to agricultural export interests of the United States and other countries was the fact that these

member countries of the Community are rapidly eliminating tariffs within the Community and, at the same time, establishing a common external tariff to apply to the products of outside countries in place of the national tariffs. Of equal significance is the merging by the six member countries of their separate national programs for the protection of domestic agriculture into an integrated program, a Common Agricultural Policy, for a number of major agricultural commodities.

In the light of these developments, the United States sought in these negotiations for U.S. agriculture (1) to secure concessions in the common external tariff on agricultural products which would permit healthy trading relations between the European Economic Community and the United States, and (2) to ensure access to the Community markets for U.S. agricultural exports covered by the Common Agricultural Policy.

Primarily because the EEC was concurrently developing its Common Agricultural Policy, major difficulties were encountered in these negotiations and were the chief cause for the prolonged period of the negotiations.

Under the agreement ultimately concluded, the EEC made tariff concessions on farm products accounting for over $700 million of U.S. agricultural exports to the Common Market in 1960. These concessions cover such major products as cotton, soybeans, tobacco, tallow, hides and skins, and certain fruit and vegetable products. On cotton and soybeans, duty-free bindings replace tariffs in some of the member countries. A reduction in the common external tariff on tobacco was obtained which will result in lower tariffs being applied by Germany, the major market in the Community for U.S. tobacco exports. For tobacco and vegetable oils, which together accounted for exports in 1960 of about $125 million, the EEC has entered into understandings with us on future negotiations for the further reductions in the common external tariffs.

These concessions cover about 70 percent of U.S. farm exports to the EEC in 1960. The remaining 30 percent of trade is made up principally of grains and certain livestock products which will be subject to variable levies instead of fixed tariffs. With respect to these products, the United States had sought to obtain quantitative assurances of access to the EEC market. It was not possible to do this because of the many unsettled problems faced by the EEC countries in developing their common agricultural policy. In fact, the EEC had stated early in these negotiations that it intended to withdraw existing national concessions on these products without negotiating for future trade access arrangements. It was finally agreed, however, to reconsider the matter of trade access in the near future and that the EEC should apply certain treatment on imports in the meantime. The products covered by these arrangements are wheat, corn, grain sorghums, poultry, and rice. For these products, the EEC agreed to negotiate further on trade access arrangements at a later date.

The EEC further agreed that, when the common policy on wheat is put into operation and throughout the period covered by these negotiations, it will take corrective measures for any decline in U.S. exports of quality wheat resulting from the application of the common policy.

The trade effects of these negotiated concessions will appear in varying degrees for different products. On the whole, in that large area of trade covered by fixed duties, and which includes many major U.S. farm product exports to the Common Market, U.S. trade is expected to increase substantially in the years ahead. In those commodities for which a common agricultural policy will be applied, no adverse effects on the level of U.S. exports are expected during the coming year. In subsequent years, however, the impact on U.S. trade will depend on the outcome of the future negotiations. These negotiations, in turn, will be influenced by the authority of the proposed trade expansion legislation.

Future Negotiations and Trade Expansion Act of 1962

The maintenance or expansion of U.S. exports, industrial as well as agricultural, will depend to a major degree on future negotiations with the EEC to reduce its external tariff or otherwise to assure trade access. In the recent negotiations at Geneva, the United States was seriously handicapped as a result of its lack of bargaining power.

The Trade Expansion Act of 1962 is designed to correct this situation. It affords the President a kit of bargaining tools which will make him better able to negotiate meaningful trade arrangements. It must be borne in mind, however, that U.S. bargaining power for securing reductions in the tariffs on agricultural products or assuring access to the Common Market for important agricultural exports cannot depend on concessions the United States offers on Europe's agricultural exports to this country. Agricultural items account for only 10 percent of EEC's total exports to the United States. The EEC must build its export trade to the United States around industrial products. On the other hand, U.S. agricultural exports to the Common Market represent about 25 percent of U.S. export trade with the market countries. Thus, the United States exports to the EEC many more agricultural commodities than it imports from the six countries—$1.1 billion in exports as compared with about $200 million in imports. Therefore, any tariff and trade package the United States may negotiate must provide access for U.S. agricultural exports, including those protected by variable import levies.

The U.S. objective in negotiations with the EEC can be simply stated. It is to assure continued access for the United States—and other third country suppliers—to an expanded EEC market. For long-term access, the United States believes that trade in the largest possible number of products should be subject to bound tariff rates fixed at levels low enough to avoid giving undue stimulation to inefficient production. For those products where EEC agricultural policies do not contemplate fixed duties, other arrangements will be sought. Where these EEC agricultural policies interfere with or threaten to interfere with reasonable trade, interim arrangements will be sought which will allow trade to continue to flow pending the negotiation of satisfactory long-term solutions.

Interim Negotiations

Negotiations and representations on agricultural trade are, of course, conducted with the EEC and its member countries on a continuing basis.

The United States has not hesitated to call to the attention of the EEC and appropriate member governments instances in which EEC actions interfere or threaten to interfere with trade. The EEC poultry regulation is a case in point. Under this regulation which went into effect on July 30, 1962, levies imposed on imports by Germany, largest U.S. market in the EEC, increased from the previous level of about 5 cents per pound to about 9.75 cents per pound. At this level U.S. trade would be seriously threatened. The German Government was requested to take advantage of the provisions of the regulations and ask the EEC for permission to reduce the levy. This was done and the EEC Commission has authorized the German Government to reduce the poultry levy by about 2 cents per pound for the remainder of 1962. The action still awaits the approval of the German Bundestag.

Representations have also been made to the Netherlands Government over the excessive increase in import levies on flour which occurred on July 30. The Netherlands Government made a modest reduction as a result.

U.S. efforts in the interim period are directed toward seeking such adjustments and accommodations in EEC trade regulations or agricultural policies which will permit trade to be maintained pending the negotiation of permanent arrangements, either separately for individual commodities, or in a general negotiation under the provisions of new trade legislation.

Commodity Arrangements

Before the EEC came into being, difficulties were experienced under GATT in making trade in certain agricultural commodities subject to fixed bound duties in accordance with the traditional rules of GATT. Basically this difficulty arose out of the special national agricultural policies of industrial governments and the impact of these policies on international trade.

At the GATT Ministerial meeting in November 1961, it was decided to refer the problem of maintaining world trade in certain Temperate Zone agricultural commodities, including cereals, meats, and dairy products, to special study groups.

An attempt may be made to find solutions to trade problems in these commodities by means of special international commodity arrangements. The United States would be ready to participate in such efforts. Pending the negotiation of such agreements, interim arrangements could assure that trade would be maintained.

U.K. Membership in EEC

The United Kingdom is now negotiating with the EEC for full membership. It is expected that a decision will be reached within the coming months. An enlarged EEC that included the United Kingdom and possibly other European countries would be a development of capital importance to American agriculture.

The United Kingdom is the world's largest importer of agricultural products. Generally it ranks first or second as a market for U.S. agricultural

exports. U.S. agricultural exports to the United Kingdom during the last fiscal year equaled nearly a half billion dollars. The inclusion of the United Kingdom in the EEC would mean that, in time, an expanded EEC would account for about 60 percent of U.S. dollar agricultural exports.

The importance of a liberal outward-looking trade policy on the part of the EEC would become even more important to the American farmer. The United Kingdom in the past has pursued a liberal policy with respect to agricultural imports. Most U.S. agricultural imports enter the United Kingdom at moderate or zero duties.

Since United Kingdom tariffs on agricultural products are generally lower than those which the EEC has adopted or has under consideration, a whole new round of tariff negotiations would be required to merge United Kingdom tariffs with those of the present Six of the Common Market. In the agricultural field, it would be necessary to obtain, for some commodities, reduction in the present external tariff of the Six in order to assure U.S. agricultural exporters continued access to the enlarged EEC.

For variable levy items such as grains, it would become even more imperative that the United States obtain from the EEC concessions that assure that United States grain exports would be maintained.

If the United Kingdom joins the EEC it will also have profound effects on the United Kingdom's trading relationship with the Commonwealth. For many agricultural commodities, Commonwealth countries enjoy a preferred position in the U.K. market under the system of Commonwealth preference. American farmers cannot afford to see the system of preferences extended to the EEC as a whole if the United Kingdom should join. On the other hand, it is inconceivable that the present Six would accept the United Kingdom as a member and allow it to retain the system of Commonwealth preferences.

The U.S. attitude toward this problem is that the EEC should adopt tariff and trade policies which maximize access and trading opportunities of all Free World third-country suppliers. Where Commonwealth preferences now exist, a transition period for phasing out such preferences may be agreed upon, however.

Summary

U.S. agriculture has a vital stake in the European Common Market. An expanded EEC that included the United Kingdom and possibly others would account for more than one-half of all U.S. agricultural dollar exports.

The American farmer wants to see the EEC prosper economically, and he wants to share in this expanding market.

Briefly the objective of U.S. agricultural policy with respect to the EEC is to develop trade policies which assure the American farmer and farmers in other friendly expanding countries continued access to their important European markets.

For a number of important items, including wheat, feed grains, rice, and poultry, satisfactory arrangements to assure continued access have not yet been negotiated. There will be further negotiations with the EEC on these items. The question of when has not yet been settled. The United Kingdom negotiations for membership in the EEC are a factor affecting the timing and the nature of further negotiations with the EEC. If the United Kingdom should join the EEC, this will be a development of major significance for U.S. agrucultural trade.

In the meantime, the EEC has issued regulations for poultry, wheat, flour, and feed grains establishing variable levies to replace the previously existing tariffs and other trade regulating mechanisms. Regulations for rice are expected to follow shortly. Where these regulations interfere or threaten to interfere with trade, U.S. efforts are directed toward obtaining interim adjustments which assure that trade is maintained pending the negotiation of permanent trade access arrangements. Representations have already been made to the German Government with regard to poultry, and to the Netherlands Government with regard to flour.

The new trade legislation will be helpful in negotiating permanent access arrangements and favorable treatment of agricultural imports by the EEC. All the resources the United States can muster will be needed for this task. Negotiations on agricultural trade to the maximum extent possible must take place as a part of an overall package in which U.S. concessions in the nonagricultural field can be used to obtain concessions from the EEC in the agricultural field. The need for this is obvious when one looks at the balance of U.S. agricultural trade with the EEC. The United States sells the present Six about $1.1 billion of agricultural products annually and imports from them only about $200 million.

If the United Kingdom joins the Common Market, then the preponderance of United States agricultural exports over imports is even greater. The United States, the Free World, cannot afford the consequences of losing important agricultural export markets in an expanded EEC.

The United States expects the European Common Market to follow a liberal, outward-looking, trade expansive agricultural policy. Only such a policy will maximize the contribution which the EEC can make to the strength of the Free World. Any other policy would be contrary to the principles of the treaty on which it was founded, and the economic interests of its own citizens. The Free World will grow and prosper together under liberal trade policies which allow efficient, low-cost agricultural producers continued access to world markets.

Appendix 1/

Regulations implementing Common Agricultural Policies and their early effects on imports of U.S. agricultural products

Regulations to implement several of the Common Agricultural Policies for various commodities became effective on July 30. The regulations of commodities significant to U.S. exporters which directly or indirectly changed export terms were those for wheat, feed grains, flour, poultry, and fruits and vegetables. These commodity groups accounted for $500 million of the $1.2 billion worth of U.S. agricultural exports to the EEC in fiscal 1962.

The implementation of the Common Agricultural Policies has required a large number of often complicated regulations or decisions by the EEC. By early September, 122 of these actions had been taken by the EEC. These regulations, of course, had to be supplemented by regulations issued in each of the respective member countries.

Trade in several other commodities of importance to U.S. agriculture probably will be affected as other CAP regulations become effective later. These are regulations for beef variety meats and tallow (expected in April 1963), lard and pork variety meats (scheduled December 3, 1962), and rice (January or April 1963). Other Common Agricultural Policies which may affect U.S. exports are planned but not yet scheduled.

For fixed duty items, tariffs on imports from member countries are gradually being eliminated and stand at 65 to 70 percent of their pre-EEC levels. This provides some measure of the extent of preference for internal trade which already has emerged.

Brief summaries of the regulations, and the performance of U.S. trade under these new conditions as of late 1962, are given for the principal commodity groups.

Grains

Regulations to implement the Common Agricultural Policy on grains became effective on July 30. A total of 50 regulations and decisions have been issued by the EEC to enforce the variable import levy system designed to regulate the grain trade of the EEC.

The Common Agricultural Policy undertakes to regulate prices of wheat and feed grains in the Community by (a) establishing threshold prices which are, broadly speaking, "minimum" import prices for each country based upon producer price objectives for that country; (b) maintaining the threshold price levels by fixing weekly levies equal to the difference between threshold prices and export prices of member countries for intra-Community trade and daily

1/ Prepared by commodity specialists of FAS.

levies equal to the difference between threshold prices and world prices for imports from outside countries; (c) establishing a preference (at present $1 per ton) within the Community for grain produced by member countries; and (d) managing the system through the requirement of licenses to import.

The domestic prices now differ between EEC countries; hence their import levies vary. Ultimately the member countries must align their internal prices with the objective of a common EEC price level and a uniform levy for each grain imported into the Community by the end of 1969.

This system extends, with substantial modification, to all of the member countries the method which has been used for a number of years in the Netherlands, West Germany, and Belgium to protect domestic grain producers from the effect of lower world prices.

Wheat

The threshold price established for each EEC country on July 30 set up a new system of "pricing" as compared with last season. In general, producer support prices are to remain at roughly the same levels as last year. But newly conceived "target" prices (from which threshold prices are derived) are set at levels well above the support level. These have led to import levies which are higher than those under the previous system, which combined quotas, state trading, or mixing regulations with lower levies in some countries. For example, in West Germany the levy on wheat imports from third countries increased to about $61 per ton in early August compared with an average of about $45 a ton in July. On the other hand, the Netherlands lessens the effect of its increased levy by granting subsidies to millers in order to prevent increases in the cost of bread. Germany is reported considering a similar step. These two countries constitute the principal U.S. EEC wheat markets.

Even though production of wheat in the EEC as a whole this year is estimated at 15 percent over the last 3 years, the Community is expected to have import needs of about 2.5 million tons of hard wheat for blending and at least 0.5 million tons of durum wheat.

Contracting of U.S. wheat for sale to the Common Market countries during August and September has been carried on at roughly the same seasonal level as during the past 3 years, although the trade anticipates that total sales for 1962-63 will be down.

The introduction of the new EEC system appears not to have exerted any significant influence upon U.S. exports of wheat to the EEC countries during August and September. The trade feels, though, that the 3-month limit on forward contracting with EEC buyers may be a limiting factor. Good wheat crops in the EEC have had a more direct influence on wheat imports from third countries than the new system.

Difficulties are anticipated because of the large current French crop of soft wheat. Scarcely any of this had moved to Germany at the time of this report. The French already have complained of this to the Commission and

have asked for a greater Community preference and also authority to fix levies on future sales (as trade with outside countries now may be done).

Exports of U.S. wheat to the Common Market countries during 1961-62 amounted to $111 million.

Feed Grains

The new system of pricing for imports of feed grains into member countries both from other member countries and from third countries is similar to that for wheat. The increases in levies, however, are not as great as for wheat. For example, the levy on imports of corn into West Germany increased from $46 to $55 per metric ton. Recently, a rebate of most of the levy on corn for starch was put into effect in West Germany. Early in September, the Belgian Government reduced its levies on barley (by $2 per ton) and corn (by $4 per ton) in response to protests by Belgian livestock producers.

The 1962-63 feed grain crop in the member countries is about equal in aggregate to the average of the past 3 years. The EEC has a deficit feed grain production. The area's net imports of feed grains have averaged 7.5 million tons during recent years.

U.S. feed grain exports to the EEC during this forthcoming season are expected to equal those of last year, despite the increase in levies. Although forward contracting recently has been down, it is offsetting heavier sales made earlier this season.

As in the case of wheat, the introduction of the new levy system has not immediately resulted in any significant change in the level of sales of U.S. feed grains to the Common Market countries. Moreover, since quantitative restrictions were removed when the new system was introduced, some new market opportunities were available. For example the United States exported 90,000 tons of corn to Italy in July and August. Before, Italy permitted imports only from January through June.

In France, although the barley crop this season is average, the corn crop is short of requirements by about 200,000 tons. Normally, French corn exports are about 500,000 tons. The possibility exists, however, that the excessive supplies of French wheat may be diverted to feed grain use.

Over a longer period it is likely that the increase in French grain production may be accelerated by a rise in French grain prices which could well mean a decrease in the Community's net import requirements for feed grains. Negotiations within the EEC on the ultimate level of grain prices will be difficult. The first step toward closing the gap between EEC member grain price levels is set for announcement next April.

Exports of U.S. feed grains to the Common Market countries during 1961-62 amounted to $271 million.

Flour

Regulations relating to flour which implement the Common Agricultural Policy for grains have sharply affected U.S. exports of flour to the EEC. Practically all U.S. flour exports to the Common Market countries--valued at $7 million in 1961-62--have gone to the Netherlands.

The regulations established a threshold price for imported flour which is equal to the equivalent in terms of flour of the threshold price for wheat, plus a margin for milling, plus an additional margin to protect domestic millers, less an allowance to offset the returns millers receive from sales of bran, and less the equivalent of a consumer subsidy on flour. The effective Netherlands import levy in August was $43 per metric ton which compares with the duty in July of about $14 per metric ton.

The effect of this increase in levy on imports of flour has been to practically preclude further shipments of U.S. flour to the Netherlands. Repeated and continuing efforts are being made to obtain a reduction in this levy.

Poultry

The implementation of the Common Agricultural Policy for poultry started July 30. Thus far, 19 regulations have been issued to implement this policy. Its application has materially affected exports of U.S. poultry products to West Germany, our principal U.S. market in the EEC.

The main features of the Common Agricultural Policy on poultry provide for: (a) Minimum import prices or gate prices to be applied to imports from third countries. The gate price (used by all six countries) for ready-to-cook broilers, the principal class of U.S. poultry products exported, is 33.34 cents per pound, c.i.f. port of entry. (b) Levies (differing in each of the six countries) which now in West Germany consist of (i) two ad valorem duties aggregating about 4.2 cents per pound, and (ii) the equivalent of the feed grain levy which for ready-to-cook broilers amounts to 5.5 cents per pound. The total of these three duties, called "the levy", amounts to 9.7 cents per pound compared with 5.3 cents per pound in July 1962 and the pre-EEC duty of about 4.5 cents per pound during 1961. (c) An escape-clause provision authorizing the prohibition of imports (after a 3-day notice period) if imports of poultry products from member countries or from third countries threaten to seriously reduce market prices, and (d) The abolition of all quantitative restrictions on imports.

Following a request from the West German Government for a reduction in the levy, the EEC Commission authorized a reduction for West Germany of 2.1 cents per pound when the German wholesale price reaches a level of 42 cents per pound, or higher. This, which would mean a reduction in the total levy from 9.7 to 7.6 cents per pound, may take place for the remainder of calendar 1962 if approved by the German Bundestag.

Trading conditions further are complicated because: (a) The construction of the gate price requires a uniform price for all parts (i.e., breasts, thighs, and even for backs and necks) at 125 percent of level for whole broilers. Yet, backs and necks are normally the cheapest of all poultry items. Further, the equivalent of the feed grain levy is increased for all parts, thus making the duty-paid cost of backs and necks all out of reason when compared with commercial practice. In consequence, all U.S. exports of backs and necks to West Germany have ceased. (b) The provision for escape-clause action authorizing the prohibition of imports after only a 3-day period tends to limit commercial sales to large operators who can consign shipments for sale out of free ports. (c) Enforcement of the gate-price provision by West Germany was started, then

discontinued after a few days, and finally reimposed in mid-September. (d) Stewing hens, initially carrying the sale gate price and levy in West Germany as broilers, now may be priced at 4.5 cents per pound less than broilers—an appropriate correction in line with commercial practice. However, U.S. stewing hens already on their way now encounter new labeling requirements precluding their entry at the lower rate.

The net effect of these conditions was a larger than normal movement of frozen poultry to West Germany through June in anticipation of the increases in duties to be imposed when the CAP became effective. This resulted in increased stocks in West German markets amounting to about 2 months' supply in addition to normal merchandising inventory.

Sales of frozen poultry to West Germany during August and September were exceedingly small, partly as a result of these excessive stocks accumulated in anticipation of the EEC regulations, and partly as a result of the high levies and the uncertainties which have accompanied the imposition of EEC regulations. The trade anticipates slow movement during the next few months.

The removal of quantitative restrictions on imports enables freer trade to Italy. Currently shipments to Italy are slow.

About $67 million worth of U.S. poultry was shipped to the EEC during the year ending July 1962—practically all to West Germany.

Fruits and Vegetables

Regulations under Common Agricultural Policy for fruits and vegetables became effective July 30. There were 15 regulations issued by the Commission through early September to implement the Common Agricultural Policy for fruits and vegetables. During the first 2 months the implementation of this policy did not affect U.S. exports of fruits and vegetables to the EEC.

The Common Agricultural Policy for fruits and vegetables undertakes to stabilize prices to producers through prohibiting the marketing of poor-quality produce, and preventing the imports of low-priced produce. Also, it undertakes gradually to liberalize trade between the member countries in fresh fruits and vegetables. Heretofore the trade has been highly restricted.

The main features of the Common Agricultural Policy are (a) The adoption of grade standards for 21 fresh fruit and vegetable commodities and the prohibition of shipment by member countries (or of imports from outside countries) of grades of these fresh fruits and vegetables not meeting the requirements of "Quality II" (the lowest acceptable commercial grade); (b) The immediate removal of nontariff barriers to trade between member countries for shipments meeting the requirements of "Extra Quality" (the top grade) of these same fruits and vegetables, with subsequent relaxation of barriers for trade in lower grades; and (c) The establishment of "reference prices" to provide a basis for the imposition of compensatory taxes on, or even the prohibition of imports from, outside countries if low-priced imports threaten to seriously disturb market prices within the EEC. Thus

far, seasonal schedules of reference prices (to be determined annually) have been established for fresh pears, table grapes, peaches, plums, mandarins and clementines, lemons, and tomatoes. Shipments of U.S. fresh lemons (the only one of these fresh fruits or vegetables exported from the United States to the EEC in July or August) were sold at prices above these reference prices.

Exports of fresh U.S. apples and pears to the EEC continue to be inhibited by quantitative restrictions imposed by each of the EEC countries on imports from non-member countries. The Common Agricultural Policy by inference sanctions the continuation of these nontariff barriers to imports from third countries. These continue to present a serious problem to regaining former markets in the EEC countries for these U.S. items, and we are continuing to endeavor to persuade the individual countries to remove these barriers.

The regulations issued under the fruit and vegetable CAP during the initial 2 months did not apply to processed fruit or vegetable items. It is not likely that trade in processed items will be affected during this forthcoming season.

Exports of U.S. fresh and processed fruits and vegetables to the EEC in 1961-62 amounted to $81 million.

Rice

The Common Agricultural Policy which has been adopted for rice undertakes to maintain market prices in the EEC by the establishment of a minimum import price (termed a threshold price) to be applied to imports of rice into the EEC from outside countries. The threshold price is to be determined initially on the basis of recent import prices and ultimately on the basis of grower price objectives in the EEC producer countries (Italy and France). The threshold price is to be maintained by collecting a levy equal to the difference between the threshold price and the lowest comparable world price. Trade will be managed, further, by a system of licensing involving advance deposits and insurance fees.

Late in September the United States received and confirmed reports that West Germany and the Benelux countries were proposing a modification of this CAP. Their objective is to replace the variable levy and threshold price with a fixed duty of approximately 12 percent ad volorem.

There are various estimates of the effective date of the proposed Common Agricultural Policy for rice. There have been various dates forecasted--November 1, January 1, and April 1. The effective date ultimately will be arrived at depending on whether the importing countries succeed in modifying the CAP on when regulations to implement the present or modified CAP are to be issued.

Currently, U.S. trade with the EEC is continuing, with the United States maintaining roughly 35 to 40 percent of the rice imports of the EEC. The value of this trade in fiscal 1962 was $17 million.

Cotton

With the EEC import duty bound free, U.S. exports of unmanufactured cotton will continue to enter the Common Market countries without restraint.

U.S. exports of unmanufactured cotton to the EEC during the year ending July 1962 amounted to $163 million.

Tobacco

There has been no Common Agricultural Policy adopted on tobacco, although one is planned for the future.

At the present time, unmanufactured tobacco is imported by private companies in Germany and the Benelux and government monopolies in France and Italy. The monopolies which formerly paid no duty on unmanufactured tobacco currently are paying duties which are about one-third of the final CXT rates.

U.S. tobacco trade to the Common Market countries during August and September was carried on at about the same rate as in recent years. The value of this trade during the 12 months ending July 1962 amounted to $105 million.

Oilseeds, Oils, and Meals

The EEC has not yet adopted a Common Agricultural Policy for vegetable oils. A CAP, as well as a possible revision of the CXTs on tropical vegetable oils (i.e., peanut, palm, etc.) and temperate oils, such as cottonseed and soybean, is not expected until the EEC has resolved its relationships with the Associated Overseas Countries. If this is accomplished soon, the EEC may be able to adopt a Common Agricultural Policy for vegetable oils within the next few months. At the time of this report, U.S. exports to the EEC of soybeans and soybean meal (bound duty free) continue heavy for this period of the year. U.S. exports of vegetable oils to the EEC now are seasonally small, but they have been unimpeded by the relatively small increases (on January 1) in import duties for these items.

During fiscal 1962, U.S. exports of soybeans to the EEC were valued at $147 million, of vegetable oils at $18 million.

Livestock, Meat, and Meat Products

Common Agricultural Policies have been adopted both for pork and for beef. Regulations to implement these policies have been issued only for a few of the items covered under the CAP for pork.

Regulations implementing the Common Agricultural Policy for carcass pork and live hogs (which the United States does not export to the EEC) went into effect on July 31. However, regulations for lard and pork variety meats (which the U.S. exports to this area) were scheduled to become effective on December 3, 1962.

Regulations under the Common Agricultural Policy for cattle, beef, variety meats, and tallow scheduled to go into effect November 1, 1962, have been delayed, reportedly until next spring.

U.S. exports of casings, hides and skins, and mohair are continuing duty free to the Common Market countries.

The trade reports that U.S. exports of all meat and meat products items to the EEC have been holding steady. The value of this trade during fiscal 1962 was $90 million with the most important item—tallow—accounting for $42 million.